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Livestock and Products Annual

2011

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Report Highlights:

The New Zealand slaughter number for 2012 is forecast at 3.9 million head, virtually unchanged from the 2011 estimate, and about 2 percent lower than the 2010 slaughter estimate. Total beef production in 2012 is forecast at 612,000 tons (CWE), up marginally from the estimated 610,000 tons produced in 2011, and down about 5 percent from the estimated 643,000 tons produced in 2010. Beef exports are forecast at 504,000 tons, compared to an estimated 501,000 tons exported in 2011, and the estimated 530,000 tons exported in 2010. Beef exports to the United States are forecast at 215,000 tons in 2012, up about 2 percent from the estimated 210,000 tons exported in 2011, but (3 percent) lower than the estimated 222,000 tons exported to the United States in 2010.

Executive Summary:

Total slaughter numbers in 2012 are forecast at 3.9 million head, virtually unchanged from the 2011 slaughter estimate. The combination of good export market prices and good weather conditions during the first half of MY2011, supported higher cattle slaughter than previously expected. Consequently, Post's estimate for MY2011 total slaughter was increased to 3.9 million head, which is about 4 percent higher than Post's earlier estimate, but still lower (2 percent) than the 2010 estimate of nearly 4.0 million head. All categories of cattle contributed to the higher than previously expected 2011 slaughter number.

Despite better average carcass weights for other adult cattle, total beef production is only expected to increase marginally in 2012, and is forecast at 612,000 tons (CWE). Post's estimate for 2011 total beef production was increased (4 percent) to 610,000 tons, which is still about 5 percent lower than the 2010 production estimate of 643,000 tons.

In line with the expected (albeit) small production increase in 2012, beef exports are projected to increase marginally and are forecast at 504,000 tons. Post's estimate of 2011 beef exports was increased (5 percent) to 501,000 tons, which is about 5 percent lower than the estimated 530,000 tons exported in 2010. In U.S. dollar terms, the first six months of 2011 saw total export revenues increase by 20 percent even though volume was down 7 percent. Farmers were disappointed that despite the strong appreciation of the New Zealand (NZ) dollar, a larger proportion of the export revenue gains was not realized by them. All the same, sheep and beef farm profits for 2011 are likely to reach NZ\$100,000, a level not earned since the strong run of profits between 2001 to 2003.

Beef exports to the US are forecast at 215,000 tons in 2012, comprising nearly 43 percent of total exports. Beef exports to Indonesia declined by 60 percent in the first half of 2011 as a result of uncertainty surrounding the issuance of import government permits.

Co-products, which include hides, leather, and edible offals and other products now contribute significantly to exporter and processor incomes and the value of these products has been growing faster than beef exports.

No major changes with Government policy meant overall sector performance in 2011 is not likely to be effected by this factor. Nor is it expected to play a significant part in the dynamics in 2012.

Commodities:

Animal Numbers, Cattle

Meat, Beef and Veal

PRODUCTION

Cattle Production & Slaughter

MY 2012

Total slaughter in 2012 is forecast at 3.9 million head, virtually unchanged from the 2011 estimate. The 2012 forecast assumes an increase of between 100,000 to 150,000 head in the national dairy herd, and a reduced number of adult animals available for slaughter due to the ongoing slide in beef-cow herd numbers and fewer bull cows retained from the dairy herd.

Cow kill

Based on cow-herd age structures and loss rates; the expected increase in dairy herd numbers; and the above assumption that dairy herd numbers will continue to increase, it is expected that the cow kill in 2012 will be similar to that of 2011 at 820,000 head. If the dairy cow herd numbers were to stabilize at the present levels the cow kill could well be above 900,000 head.

Calf reproduction & calf kill

The increase in total cow numbers suggests that the 2012 calf drop will be up approximately 1 per cent to 4.76 million head. Virtually all the increase will come from the dairy herd. Calf kill is forecast to be up 2 percent to 1.61 million head.

Other Adult Cattle kill

Other adult cattle slaughter, which is the driver of beef production, is likely to fall 3 percent to 1.47 million head. While the downward trend in the beef herd is generally thought to have bottomed out, it is not likely there will be any increase in slaughter numbers just yet. Slaughter rates may be influenced slightly by a resurgence in the export of live dairy heifer, which is providing a more lucrative outlet for surplus dairy heifers.

Live Export of Cattle

During the first half of 2011, there were 2,000 head more exports than during the same period the previous year. Exports are forecast at 28,000 head for 2011 (vs. 27,000 in 2010) and 30,000 head in 2012.

Ending Inventory

The total ending inventory is expected to increase to 10.22 million head. Again the dairy industry will be the recipient of all the increase in numbers which amounts to 170,000 head (up 2 percent). There are indications that there will be in excess of 100 farm conversions to dairy production in 2012.

MY 2011

Total cattle slaughter is estimated at 3.9 million head, up 4 percent from Post's previous (March 2011) estimate, and 2 percent lower than the 2010 slaughter rate. The other adult cattle slaughter category is still forecast to be down but by less than originally expected. Cow kill is likely to be well up on the previous forecast.

Pasture conditions

Weather conditions over nearly all the country have been benign through from mid-Autumn until late winter (Q2 & Q3, 2011). Pasture levels and growth rates are at satisfactory to high levels and stock conditions are good. This should support higher per head liveweight production to Q3 and Q4. With cattle at higher liveweights going into 2012 this should contribute to higher average per head carcass weights in 2012.

Calf reproduction

As a result of favorable weather conditions it is expected that the calving for both the dairy and beef herds will yield an appreciable increase in calf numbers. Post now forecasts 4.71 million head compared with 4.56 million in 2010. Post's new forecast is 3 percent higher than the previous estimate for 2011. Anecdotally, it has been reported that there was a higher than average number of dairy cows that failed in to get in calf in some regions. This may limit the extent to which the calf numbers can increase.

Calf kill

The increase in calf numbers produced will come exclusively from the dairy herd and will flow through to: increased calf slaughter numbers at 1.57 million head up from 1.56 million in 2010 (+1%); and extra retained young stock in the dairy herd.

Cow kill

Historically high prices for beef prompted a higher slaughter rate than generally expected during the first half of the year. The number of cows slaughtered was 1,700 head greater than for the same period in 2010. The slaughter rate was bolstered by relatively high numbers of older dairy cows, which had been previously retained to increase herd numbers, finally needing to be culled from dairy herds.

Based on the average cow kill during the second half of the last three years, the forecast has been revised upward by 15 percent and, at 822,000 head, is just 5 percent lower than the drought induced kill of 2010.

Other adult cattle kill

The slaughter rather for other adult cattle (heifers, steers, bulls) is likely to be 4 percent relative to Post's earlier estimate, and about 3 percent below the 2010 total. There has been a gradual decline in the beef cow herd over the last eight years along with a decrease in the number of beef calves retained out of the dairy cow calf production. This trend is now manifesting itself in lower numbers of other adult cattle coming forward for slaughter.

Ending Inventory

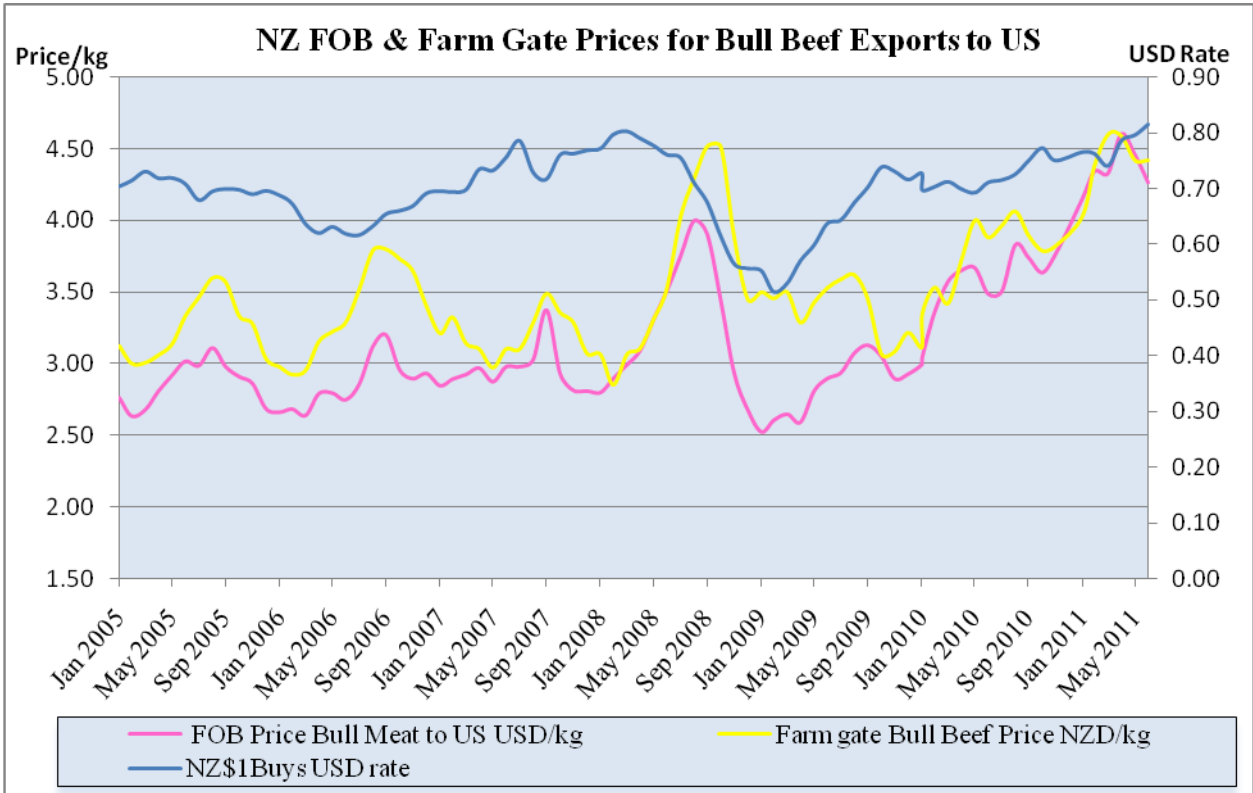
Due to increase in the dairy herd, the total ending inventory is now estimated at 10.05 million head, which is about 1 percent (143,000 head) higher than the 2010 estimate. Estimates put the number of new dairy farms coming into operation in 2011 at approximately 100.

Longer Term Outlook

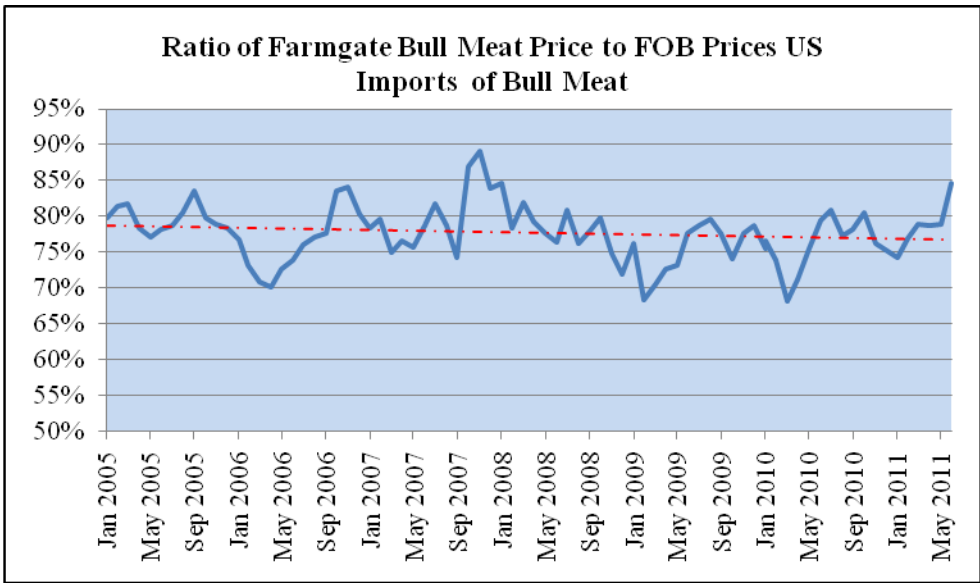
Generally speaking, there is a more positive outlook for livestock farmers at present, but industry reports indicate that farmers are not preparing to increase their beef herds. If the present level of farmgate pricing is maintained (NZD\$4 to \$4.50/kg CW) without extreme volatility for several seasons, then farmers will likely make the commitment to bolster beef production. However several factors may work against this:

- NZ Dollar appreciating too quickly against other currencies especially the USD. This is happening at present and is eroding returns to farmers
- Livestock farmers have substituted the good and consistent cashflow from grazing cows and heifers from the dairy sector for trading cattle and beef production.
- A general lack of fertilizer evidenced in much of the hill country during the last five years will limit rapid expansion of herd numbers. Although low fertilizer use has turned around in the last six months (a major fertilizer coop reports increased tonnages of 19% above last year), it will be difficult to make up for the last five years of reduced use.
- Sheep profitability has significantly increased over the last 12 months and the outlook for the next couple of seasons is positive. Comparative profitability would favour sheep so many farmers will probably increase sheep numbers if they can.
- The likelihood of continued growth of the dairy sector will be main driver for increases in beef production either from increased cow kill or increased bulls being reared from retentions from dairy calf production.

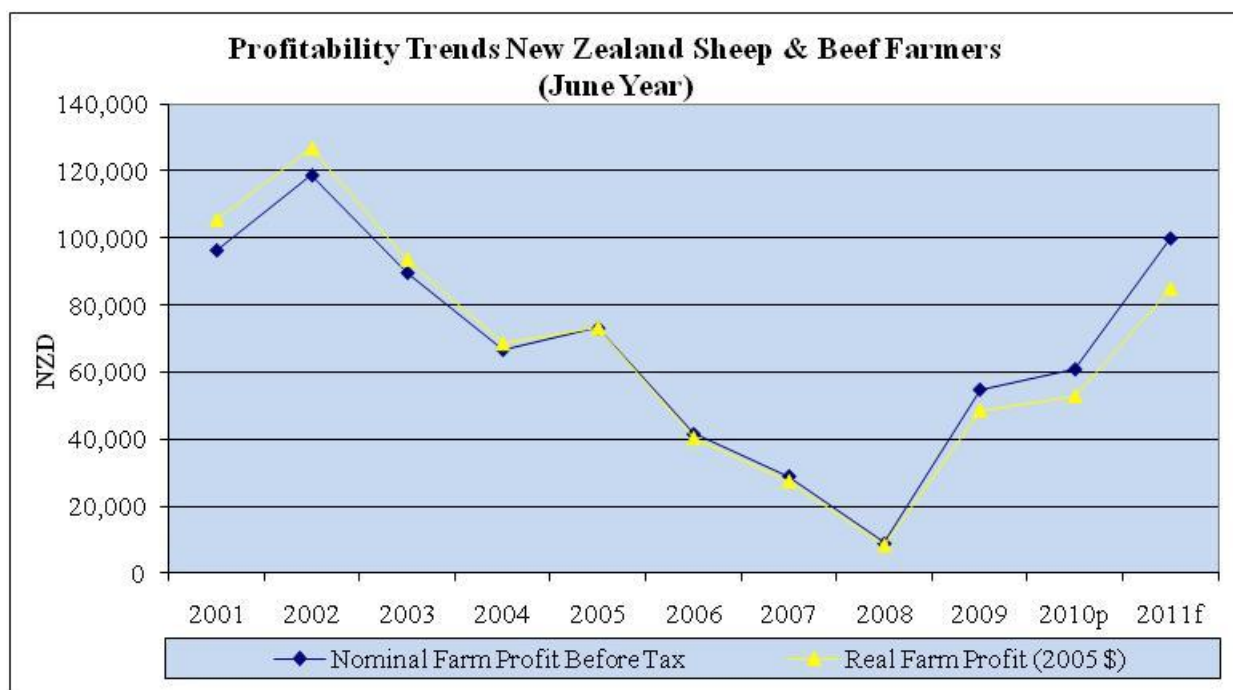
Farmer Profitability



Source: GTA, Reserve Bank NZ, Market Insight



Source: GTA, Market Insight



Source: Beef+Lamb NZ, Note: Data on a June year.

Sheep and beef farmers are in line to realize their highest profit margins since the 2001 to 2003 stretch where profits hovered around the NZ\$100,000 per farm before taxes. For the 2010/2011 June year, Beef + Lamb NZ Economic Service is forecasting profits to again reach about NZ\$100,000 per farm. This is a welcomed development for the majority of farmers who have endured very poor market returns, and climate induced production difficulties over the last seven years. Many farmers have increased debt just to keep trading, and this year's result will give them the opportunity to reduce debt and catch up on overdue maintenance. It hasn't just been one commodity, farm-gate prices for both beef and sheep have had improved (for e.g. in 2007-08 lamb prices at farm gate were \$50/head and in 2010-11 they will be over \$100/head). In addition, wool prices have increased by about 40 percent and grain prices have been strong.

Beef & Lamb NZ's Economic Service reports that all signs suggest that lamb prices will remain strong for some time, because of tight global supplies. The only cloud on the horizon is the currency exchange rates which has seen the Kiwi dollar appreciate against virtually all main currencies, and in some cases to post float highs (NZ\$1 buying US\$0.88 end July 2011)

Beef Production

New Zealand Beef Production									
Marketing Year	2010			2011 Estimates			2012 Forecasts		
	Est. CW kgs/hd	Number Killed 1000's	Total Tons Beef	CW kgs/hd	Number Killed 1000's	Total Tons Beef	Est. CW kgs/hd	Number Killed 1000's	Total Tons Beef
Cow Slaughter	198.0	868.2	171944	198.4	821.62	163022	200	820	164000
Calf Slaughter	16.3	1,562	25543	16.3	1,572.4	25609	16.75	1,610	26968
Heifer Slaughter	234.8	493	115632	231.3	488	112769	235	470	110450
Steer slaughter	309.1	632	195236	303.9	584	177333	312	575	179400
Bull Slaughter	307.3	437	134174	298.5	438	130882	308	425	130688
Other Adult Cattle Subtotal	285.1	1,560.9	445041	278.9	1,509.5	420983	286.1	1,470	420538
Total Slaughter	161.0	3,991.6	642,529	156	3,903.5	609,614	156.8	3,900	611505

Source: Post, Beef&LambNZ, StatisticsNZ, MAF

2012

Post expects total beef production to remain relatively flat, with 2012 production forecast at 612,000 tons (CWE), up marginally (2,000 tons) from the estimated 2011 production level. Despite lowered steer, heifer, and bull numbers, beef production will likely match 2011's level as better average carcass weights (+7kg on average) return to historical levels. Heavier CWs are expected to come from young cattle destined for slaughter in 2012 wintering better in 2011 and thus arriving heavier at the start of the year. This, coupled with average pasture growing conditions during 2012, should result in heavier carcass weights.

It is likely that the beef production from cows and calves will each be up by 1000 tons owing to slightly higher average carcass weights and an increase in slaughter numbers respectively.

2011

The anticipated drop in 2011 production is not as great as previously anticipated. Beef production in 2010 is now estimated at 610,000 tons (CWE), which is 4 percent higher than Post's previous estimate, and 5 percent lower than the estimated production level in 2010. The most significant change from 2010 is in the "other" adult category, which will likely suffer a reduction of close to 25,000 tons (CWE). The drop reflects 50,000 fewer head being slaughtered and lower average carcass weights (due to younger, climate affected cattle being killed in 2010). The lower slaughter rate reflects an ongoing decline in the size of the base beef herd resulting from drought conditions and relatively poor profitability.

The continued higher level of cow beef production is a bright spot in 2011. While it is likely to be 8,000 tons (CWE) less than last year's effort, Posts revised estimate is 21,000 tons (15%) ahead of initial forecasts for the year. This is despite the average carcass weight (CW) being 4kg/head (-2%) less than anticipated. As discussed in the cattle production section it is the result of the cow kill being revised upward

Other News

Merger of two genetics companies

In January 2011, two genetics companies, Rissington Breedline and Landcorp Genetics (part of the State-owned corporate farm and the largest sheep and beef farming business in New Zealand), announced they will merge creating New Zealand's single largest genetic database. The two companies have purebred and composite breeding programs which include Primera, Lamb Supreme, Highlander, LandMark, Romney and Texel sheep breeds, as well Angus, Simmental and Stabiliser cattle breeds, and Wapiti and Red deer breeds.

PSD Tables

Animal Numbers, Cattle New Zealand (1000hd, %)	2010			2011			2012		
	Market Year Begin: Jan 2010			Market Year Begin: Jan 2011			Market Year Begin: Jan 2012		
	Off. Data	Post Est.	New Post Data	Off. Data	Post Est.	New Post Data	Off. Data	Post Est.	New Post Data
Total Cattle Beg. Stks	9,917	9,917	9,917	9,907	9,907	9,907			10,050
Dairy Cows Beg. Stocks	4,597	4,597	4,597	4,700	4,700	4,700			4,800
Beef Cows Beg. Stocks	1,096	1,096	1,096	1,114	1,114	1,114			1,100
Production (Calf Crop)	4,559	4,559	4,559	4,565	4,565	4,710			4,760
Intra-EU Imports	0	0	0	0	0		0		
Other Imports	0	0	0	0	0		0		
Total Imports	0	0	0	0	0	0	0	0	0
Total Supply	14,476	14,476	14,476	14,472	14,472	14,617	0	0	14,810
Intra EU Exports	0	0	0	0	0		0		
Other Exports	27	26	27	30	30	28			30
Total Exports	27	26	27	30	30	28	0	0	30
Cow Slaughter	868	868	868	714	714	822			820
Calf Slaughter	1,562	1,562	1,562	1,590	1,590	1,572			1,610
Other Slaughter	1,561	1,561	1,561	1,458	1,458	1,510			1,470
Total Slaughter	3,991	3,991	3,991	3,762	3,762	3,904	0	0	3,900
Loss	551	552	551	625	625	635			660
Ending Inventories	9,907	9,907	9,907	10,055	10,055	10,050			10,220
Total Distribution	14,476	14,476	14,476	14,472	14,472	14,617	0	0	14,810
CY Imp. from U.S.	0	0		0	0				
CY. Exp. to U.S.	0	0		0	0				
Balance	0	0	0	0	0	(0)			0
Inventory Balance	(10)	(10)	(10)	148	148	143			170
Inventory Change	2	2	2	0	0	0			1
Cow Change	4	0	4	3	0	0			0
Production Change	1	1	1	0	0	3			1
Production to Cows	80	80	80	79	79	81			81
Trade Balance	27	26	27	30	30	28			30
Slaughter to Inventory	40	40	40	38	38	39			39
TS=TD			0			(0)			0

Meat, Beef & Veal New Zealand (1000hd,1000 MT CWE)	2010			2011			2012		
	Market Year Begin: Jan 2010			Market Year Begin: Jan 2011			Market Year Begin: Jan 2012		
	Off. Data	old Post Est.	New Post Data	Off. Data	Post Est.	New Post Data	Off. Data	Post Est.	New Post Data
Slaughter (Reference)	3,991	3,991	3,991	3,762	3,762	3,904			3,900
Beginning Stocks	0	0	0	0	0	0			0
Production	643	643	643	587	587	610			612
Intra-EU Imports	0	0	0	0	0				
Other Imports	11	11	11	11	11	12			12
Total Imports	11	11	11	11	11	12			12
Total Supply	654	654	654	598	598	622			624
Intra EU Exports	0	0	0	0	0	0			0
Other Exports	530	530	530	478	478	501			504
Total Exports	530	530	530	478	478	501			504
Human Dom. Consumption	124	124	124	120	120	121			120
Other Use, Losses	0	0	0	0	0	0			0
Total Dom. Consumption	124	124	124	120	120	121			120
Ending Stocks	0	0	0	0	0				
Total Distribution	654	654	654	598	598	622			624
CY Imp. from U.S.	0	0	0	0	0				
CY. Exp. to U.S.	235	222	222	221	205	210			215
Balance	0	0	0	0	0	0			0
Inventory Balance	0	0	0	0	0	0			0
Weights	161	161	161	156	156	156			157
Production Change	3	3	3	(9)	(9)	(5)			0
Import Change	10	10	10	0	0	9			0
Export Change	3	3	3	(10)	(10)	(5)			1
Trade Balance	519	519	519	467	467	489			492
Consumption Change	3	3	3	(3)	(3)	(2)			(1)
Population	4,252,2 77	4,213,4 18	4,252,2 77	429034 7	421341 8	429034 7	4,290,3 47	4,388,0 00	4,388,0 00
Per Capita Consumption	29	29	29	28	28	28	28	27	27
TS=TD			0		0	0		0	0

Note. These are not official USDA forecasts.

Sources: Post, Global Trade Atlas, MAF, StatisticsNZ, Beef&LambNZ

CONSUMPTION

Domestic consumption is forecast to remain relatively stable between 2011 and 2012 at just over 120,000 tons (CWE). It has been estimated there will have be a 2% decrease in volume consumed between the 2010 year and 2011 in response to the rise in beef retail prices.

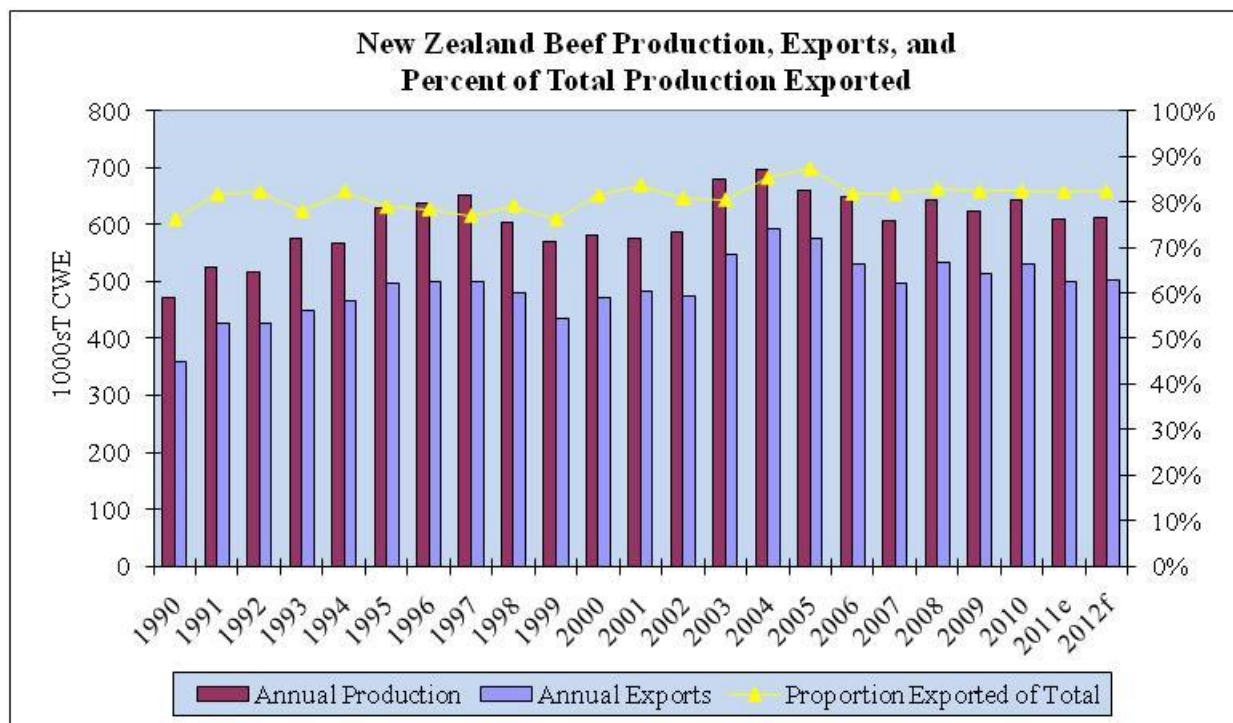
TRADE & EXPORTS

2012

Beef exports in 2012 are forecast at 504,000T (CWE), up marginally from last year's level. The increase is in direct response to the forecast increase in production. Post expects exports to the U.S. to increase to 215,000 tons.

2011

Post's estimate of 2011 beef exports has been increased (5 percent) to 501,000 tons (CWE) reflecting export performance to-date and the expectation that beef production will be slightly higher than previously reported. Despite the upward adjustment, exports are forecast to be down 6 percent relative to the previous year.

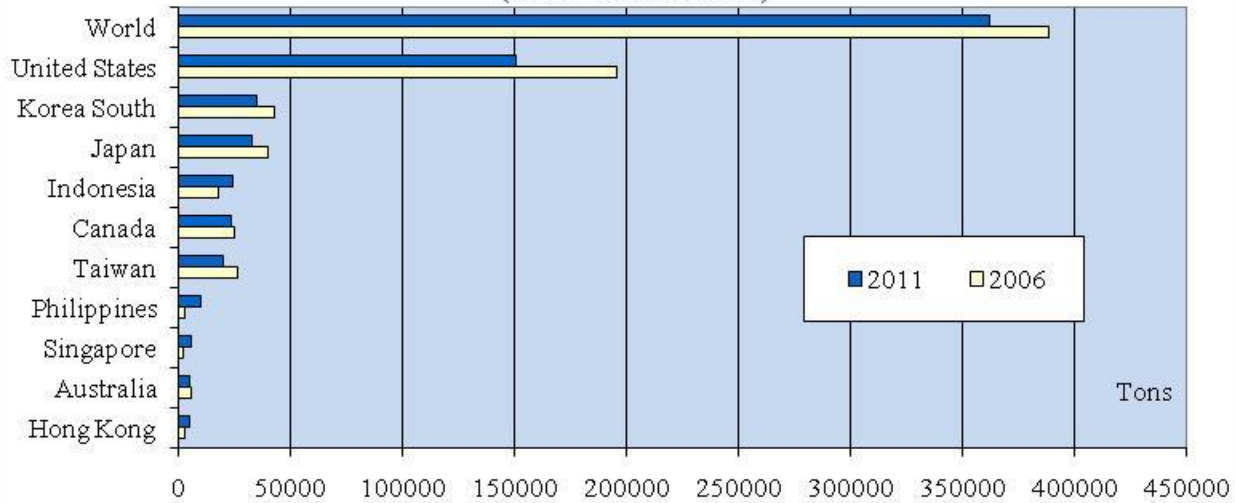


Source: Agricultural Affairs Office, US Embassy, Wellington, NZ

New Zealand Beef Export Statistics								
Year To Date: January - June							% Change	% Change
Partner Country	2009		2010		2011			
	Quantity CWE Tons	Value USD millions	Quantity CWE Tons	Value USD millions	Quantity CWE Tons	Value USD millions		
World	327957	705.0	335833	892.6	312354	1,074.9	-7.0%	20.4%
United States	158574	303.7	155789	382.8	144548	458.8	-7.2%	19.9%
Korea South	26294	40.5	31159	65.7	32417	93.1	4.0%	41.8%
Japan	24290	65.9	27893	87.8	26353	92.5	-5.5%	5.3%
Canada	30021	58.0	19414	48.4	19758	61.2	1.8%	26.3%
Taiwan	17803	46.0	17785	53.1	18143	70.4	2.0%	32.8%
Indonesia	22418	33.3	29505	63.4	11332	30.0	-61.6%	-52.6%
Philippines	4027	7.0	8385	16.0	8144	20.0	-2.9%	24.4%
Singapore	4671	12.4	5523	17.8	5054	20.4	-8.5%	14.4%
United Kingdom	3843	16.3	3227	14.7	4155	23.4	28.8%	59.2%
Australia	2390	7.6	3505	15.5	3871	19.8	10.4%	27.8%
Rest of the World	33623	114.4	33646	127.3	38583	185.2	14.7%	45.5%

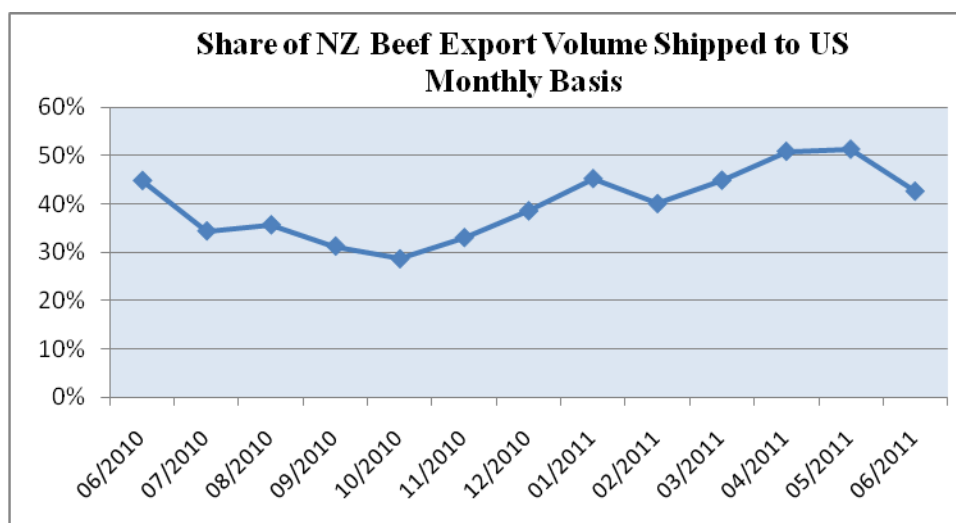
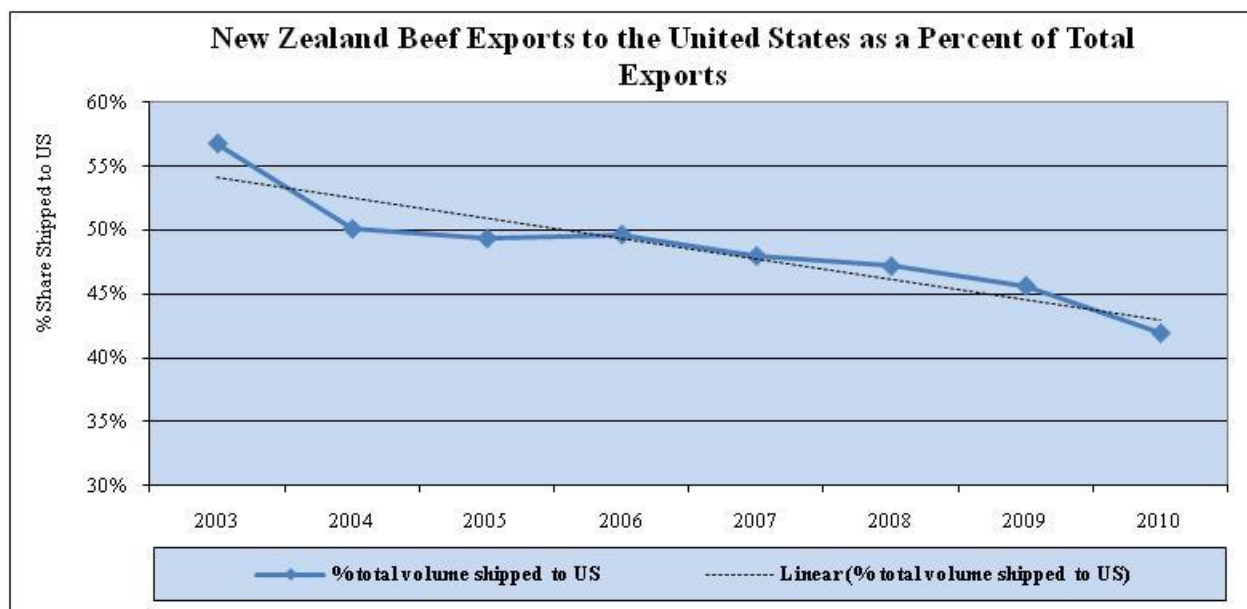
Source: Global Trade Atlas (GTA) includes Beef PSD HS Codes

Top Ten Export Destinations for New Zealand Beef
(Tons PWE/June Year)



	Hong Kong	Australia	Singapore	Philippines	Taiwan	Canada	Indonesia	Japan	Korea South	United States	World
2011	4740	5157	5918	9718	19714	23239	23946	33029	35191	150732	361555
2006	2710	5698	2407	3023	26133	24793	17946	40195	43007	195596	388503

Source: Global Trade Atlas (GTA) note the years are June years



United States:

New Zealand beef exports to the United States in 2011 are estimated at 210,000 tons (CWE), down 5 percent from exports in 2010. While year-on-year exports to the U.S. during the first six months of 2011 fell 11,000 tons (CWE), depending on the US drought and other factors, the on-going decline in New Zealand beef exports to the US market could be coming to an end. The factors that support this assumption include:

- **Drought:** The ending of the drought in the southern US states and the timing as to when the effects wear off which would prompt some herd rebuilding and lower the US cow kill which in turn may encourage imports from New Zealand depending on the impact on prices.
- **Prices:** FOB prices in USD terms for manufacturing beef reached the highest level ever in late Q1 early Q2, 2011, although prices subsequently backed off the highs they remain at historically high levels (see farm gate price chart)

- Worldwide Supply: It is currently thought worldwide supply is having a hard time satisfying existing demand, and the other leading beef exporting nations for various reasons may not be able (e.g. strong Australian dollar) to meet U.S. demand for manufacturing beef at competitive prices.
- Indonesia: If the situation in Indonesia doesn't resolve itself soon NZ beef destined for that market may end up being sold to the US.
- U.S. importers: Reportedly U.S. importers are already looking at securing supply of manufacturing beef prior to Christmas 2011 if shortages occur in US for manufacturing/grinding beef.

However there are other factors which will work against exports to the U.S. which include:

- Appreciation of the NZ dollar against the US dollar will work against a larger swing back to exports to the US.
- Even if the manufacturing beef prices in the US peak again they will probably drag Pacific Rim prices with them and exporters in NZ may find it more advantageous to continue to trade with other countries whose currencies haven't devalued as much against the Kiwi.

Indonesia:

Exports to Indonesia slumped during the first half of 2011 recording only 9,769 T CWE against 24,570T in 2010 (down 60%) for the same period last year. The trade reports that beef shipments have slowed to barely a trickle. Factors at work in this market as reported in New Zealand are:

- Since Q1, political interference has made it very difficult for major importers to obtain the necessary import licenses.
- The situation regarding trade policy as it relates to beef imports is very unclear.
- It is complicated by the aspirational goal of the Government to be self sufficient in beef production.
- The crisis which occurred over the exports of live cattle from northern Australia to Indonesia being banned by Australian authorities.
- While the Australian ban has been lifted, onerous conditions have been put on the resumption of actual shipments and it is thought it may be some time before significant shipments resume.
- The shortage of beef caused by the cessation of the live trade is likely to be 6-7000 tons per month and if sustained for any length of time will likely boost domestic prices in Indonesia.
- There was a temporary reprieve in July when the Government issued approximately 8,000 tons (Product Weight) of licenses, of which NZ Exporters obtained approx 1,700 tons (PW) with Australian traders receiving the balance.

It is widely maintained by New Zealand traders that it is only a matter of time before the shortage of beef becomes important enough to the Indonesian Government that there will be a turn-around in the issuance of licenses.

Korea

During the first half of 2011, South Korea emerged as the second most valuable destination for exports of NZ beef, both by quantity and value. This was probably supported by the speculative nature of traders in Korea buying up large quantities earlier in the year in response to perceived heightened supply shortages that may have been brought about by the Queensland floods exacerbating an already tight supply. It is thought that the NZ has established a good niche trade for pasture fed product which may not yield spectacular volume growth but will be worked on to grow the value.

Taiwan

The market in Taiwan has remained consistent, receiving stable quantities and the growth in was significant in the first half of 2011, up 37 percent against the same period in 2010. It has been reported, however that prices have come off their highs going into Q3, 2010. Quite a lot of market development work by Beef+Lamb NZ has gone on to get over the idea that grass fed beef has its own particular attributes and is a satisfying alternative to grain fed beef.

Japan

Export volumes during the first half of 2011 fell by 6 percent compared to the same period last year. This decline matched the overall drop in New Zealand exports to all destinations during the first half of 2011. On a value basis, exports increased 5 percent for the first half of 2011 compared to the same period 2010, which is significantly lower than the 20 percent increase globally. While Japan remains a relatively high-priced market, trade contacts report it is not growing in comparison to other Asian markets. One commentator describes the market as having been flat for the past two years.

In late July it was reported that the wholesale beef markets in Tokyo tumbled in response to reports that beef contaminated with radioactivity had found its way into the food chain. Once one part of the beef market is tainted consumer demand is turned off all beef.

Diversification Trend

Relative to the size of the market, there are a large number of traders exporting New Zealand beef. One consequence of this is that the smaller to medium sized players have steered away from competing directly with the largest players and have diversified into niche markets that have satisfied their price targets. In addition grass fed beef is becoming better known and easier to sell.

In 2003, about 12 percent of NZ beef (on a volume basis) went to destinations outside the top six markets, by 2010 19 percent of exports went to these markets. This trend is likely to continue. Exporters continue to be very flexible in their approach to which markets and customers they service.

Co-Products

Co-products, including hides, leathers, offals, and other products from cattle carcasses are not included in the PSD numbers. Outside of the PSD HS codes, there were exports directly attributable to bovine carcasses worth US\$441 million for the period Jan-May 2011, compared to beef exports under the main PSD HS codes of US\$1.63 billion. The value of these co-product exports has been growing at a compound rate of 13 percent per annum, versus an annual growth rate of 8 percent for beef exports. The main destinations are (in descending value): Italy, China, Japan, US, Hong Kong, South Korea, Indonesia, and Australia.

By extracting more of the carcass for edible offals, processors have been able to grow volume and value even as total beef production on a carcass weight basis has flattened out. This income has now become very important to ongoing processor profits.

Tallow and fats are not included in this total for co-products because the export statistics groups all animal fats, oils, and gelatins together. For the period Jan-May 2011, exports of total animal fats, oils and gelatins were valued at \$129.3 million. This trade is growing at about 7.5 percent per annum. China is the main destination making up 66 percent of the total value of exports. A lot of the tallow exported to China is used in soap manufacture.

GOVERNMENT AND INDUSTRY POLICY

New Zealand gains access to EU beef quota

In late July 2011, the EU announced that it has granted New Zealand access to a 20,000 ton tariff-free quota for high quality grain-fed beef. While this is positive for NZ beef, the share of the quota will likely be low, given the small amount of annual grain-fed beef produced in New Zealand. The total quota volume is set to increase to 45,000 tons in 2012. The main beneficiary of this new access arrangement will be ANZCO, a meat and meat products processor that owns the only significant grain-fed beef feed lot in New Zealand.

Red meat industry fund announced

In April 2011, a NZ \$850,000 fund to help stimulate the red meat industry was announced by the Government. The fund, a joint initiative between the New Zealand Trade and Enterprise (NZTE) and Beef + Lamb NZ, aims to encourage industry-led projects that have the potential to enhance the profitability and competitiveness of the NZ meat sector.

Red Meat Sector Strategy

The red meat sector strategy report, commissioned by the Meat Industry Association (MIA), Beef + Lamb New Zealand, NZ Trade and Enterprise, and the Ministry of Agriculture and Forestry, was released in May 2011. The strategy is an industry-wide approach that includes both processors and farmers. It aims to enhance profitability and increase earnings from NZ \$8 billion to NZ \$14 billion by 2025.

The report, which was done by a team at Deloitte that also delivered strategy documents for the horticulture and aquaculture sectors, identified the greatest potential for significant improvement in three key areas:

- in-market co-ordination: creating a strong brand position and acting with scale through greater co-ordination of exports to enlarge targeted markets;
- efficient and aligned procurement: a critical need to shift the focus of competition from the farm gate to offshore competitors; and,
- sector best practice: developing farming systems and improving productivity at all stages of the supply/value chain, leveraging research and development and knowledge transfer.

According to a model developed by the New Zealand Institute of Economic Research, there would be a measurable improvement in New Zealand's GDP if the recommendations were implemented.

As part of the implementation process, a red meat sector strategy co-coordinating group has been formed to promote, advise, monitor and report on implementation of the sector strategy. In addition to two independent members, the group includes representatives from the Meat Industry Association, Beef + Lamb New Zealand and the Ministry of Agriculture and Forestry.

From a farmer standpoint, the report includes practical ways to assess business options that could enhance profitability. To support adoption of the recommendations in the report, Beef + Lamb NZ is ramping up its extension effort to help farmers achieve productivity gains.

National Animal Identification and Tracing Scheme (NAIT)

In late May 2011, NAIT Limited and MAF jointly announced that the mandatory implementation of the NAIT scheme will be postponed until mid to late 2012. It was previously due to go into force on November 1, 2011. The NAIT Bill has not yet passed Parliament and the IT system supporting the scheme is not in place.

Under the scheme, only cattle and deer are to be included. The cost of the tags is not significantly higher than the plastic tags that were already mandated under the Animal Health Board tagging system, which will be rolled into NAIT. While there are likely to be some productivity gains, the program has been controversial among farmers. More detail on the scheme can be found at: <http://www.nait.org.nz/>

Trade Policy

New Zealand Trade Agreements

New Zealand has eight free trade agreements (FTAs) in force. According to calculations by the National Bank of New Zealand, these FTAs cover 29% of the global population and include some of the world's fastest growing economies.

The GONZ is in the process of negotiating an additional five FTAs with, among others, India, Korea, Russia and the United States. It is hoped these FTAs will achieve enhanced access to rapidly growing economies and markets comprising a further 27% of the global population. The India FTA has the potential to benefit meat exporters in the long run as tariffs for most animal products are 33 percent. While exporters report that FTAs do not drive business decisions, they do provide a framework to work out trade-related issues, especially SPS and non-tariff barriers, and, in some cases, can provide significant market access advantages.

The FTAs in force are:

[New Zealand-Hong Kong, China Closer Economic Partnership](#) (NZ-HK CEP entered into force on 1 January 2011)

[New Zealand-Malaysia Free Trade Agreement](#) (MNZFTA entered into force on 1 August 2010)

[ASEAN-Australia-New Zealand Free Trade Agreement](#) (AANZFTA) - 2010

[New Zealand-China Free Trade Agreement](#) (NZ-China FTA) - 2008

[Trans-Pacific Strategic Economic Partnership](#) (P4) - 2005

[New Zealand-Thailand Closer Economic Partnership](#) (NZTCEP) - 2005

[New Zealand-Singapore Closer Economic Partnership](#) (NZSCEP) - 2001

[Australia-New Zealand Closer Economic Relationship](#) (CER) - 1983

In addition, the New Zealand Government is currently negotiating the following FTAs:

[New Zealand-Gulf Cooperation Council Free Trade Agreement](#) (NZ-GCC FTA negotiations have been concluded but not yet signed)

Expansion of the [Trans-Pacific Strategic Economic Partnership](#) (TPP)

[New Zealand-Korea Free Trade Agreement](#) (NZ-Korea FTA)

[New Zealand-India Free Trade Agreement](#) (NZ-India FTA)

[New Zealand-Russia-Belarus-Kazakhstan Free Trade Agreement](#) (NZ-RBK)

TransPacific Partnership Agreement (TPP)

Beef+Lamb NZ, formerly called Meat and Wood NZ, and the Meat Industry Association jointly made submissions to the Ministry of Foreign Affairs and Trade on the TPP. These organizations support an elimination of both the US tariff rate quota, which currently stands at US 4.4 cents/kg, and the over-quota tariff rate, which is currently 26.4% of FOB value. The industry would like to receive a level of access equivalent to the Australian beef industry. They maintain that New Zealand's beef exports to the US are complimentary to US beef production because lean meat from New Zealand is blended with US fat trimmings to manufacture burgers, patties, and pizza toppings. Beef+Lamb NZ notes that New Zealand supplies, at most, 2% of total US consumption, and contends that, because of land constraints, is not going to be able to significantly increase market share.

More information on TPP can be found at:

<http://www.mfat.govt.nz/downloads/trade-agreement/transpacific/Submissions-part-7.pdf>

Other News

Fonterra, Silver Fern Farms launch cargo company

Silver Fern Farms, the country's biggest meat company, and Fonterra, the country's largest dairy cooperative, jointly launched a new import-export cargo management company called "Kotahi" in July 2011. The new company began operations in August and is expected to handle approximately one-third of all containers leaving New Zealand.

Kotahi reportedly aims to attract shipping lines that can deliver fast service for perishable exports and help smooth out the peaks and troughs associated with highly seasonal shipping demands by providing more certainty regarding shipping volumes and timetables. At a future date, the company plans to broaden its business plan to include other sectors such as kiwifruit and seafood. The company's initial focus is working with ocean carriers but it also has plans to drive more efficient rail, road and port infrastructure usage.